

Do I Need to Report Cost Shares on My Return?

**Agriculture Handbook 718,
pages 58-61**

Cost-share Payments Reporting Rule

- Generally, you are required to report Government cost-share payments as part of your gross income

Cost-Share Payments

Section 126 Incentives

- However, under **Section 126** of the IRS Code, all, or part of, **certain** government cost-share programs **MAY be excluded** from gross income.

Cost-share Payments

Section 126 Incentives

- Nevertheless, even if you choose to exclude an approved government cost-share payment, **YOU MUST REPORT IT** on your return showing how the exclusion was determined.

Approved Federal Programs

- Conservation Security Program
- **Conservation Reserve Program (CRP)**
- **Environmental Quality Incentives Program (EQIP)**
- **Wetland Reserve Program (WRP)**
- Wildlife Habitat Incentive Program (WHIP)
- Forest Land Enhancement Program (FLEP)

Approved State Programs

- Forestry Productivity Program_____LA
- Forestry Development Program_____NC
- Reforestation of Timberlands Act Program_____VA
- Forest Resource Development Program_____MS
- Forest Improvement Program_____CA
- Forest Renewal Program_____SC
- Forestry Development Program_____IL

Forest Health Protection Cost Share Approved for Exclusion

- Include: Southern Pine Beetle Cost Share, Western Bark Beetle Cost Share, etc.
- It is now excludable from income
- Revenue Ruling 2009-23 (8/10/2009)

Capital Expenditure

- Capital expenditure qualify for the income exclusion under Sec. 126. The amount paid or incurred that's allowable as deduction in the tax year are not excludable (sec. 126(b)(2)).

TSI Cost-share Payments

- If the cost-share payment received is used for **Timber Stand Improvement (TSI)** practices, it **must** always be included in gross income.
- TSI payments, however, are generally eligible for deduction as a **current expense** in the year incurred.

Calculate the Excludable Amount

- ❖ Last year you harvested 40 acres and received **\$84,500** for the timber.
- ❖ This was the only income from the property in many years.
- ❖ This year, you replanted the 40 acres at a cost of **\$6,000** (\$150/acre).
- ❖ You received **\$3,900** in CRP cost-share payments to cover the cost of replanting.

Cost-share Example I

- How much of \$3,900 cost-share payment can be excluded from your gross income?

Solution

- **Step 1:**

Compute 10% of the average annual income for the 3 previous years:

$$0.10 \times (\$84,500/3) = \$2,817$$

- **Step 2:**

Multiply \$2.50 times the number of affected acres

$$\$2.50 \times 40 = \$100$$

Solution

■ Step 3:

Compare the two values. \$2,817 is larger than \$100.
Divide that by an interest rate:

$$\$2,817 / 7.63\% = \underline{\$36,920}$$

■ Step 4:

\$36,920 is larger than \$3,900 cost share; hence you can exclude the entire CRP payment from your gross income.

Reporting on Your Return

- For taxpayers who report as investors: report as “miscellaneous income” on the front of Form 1040.
- For taxpayers whose timber holdings are treated as a business: report on **Schedule C, Form 1040**.
- For farmers: report on **Schedule F, Form 1040**.

Recapture Provisions

- If the property established with an excluded cost-share payment is disposed of within 10 years, the LESSER of:
 - the amount of the cost-share payment excluded, or
 - the amount of the gain from disposal.
- is recaptured as ordinary income.

**10% less is recaptured *each year* for property disposed between 10 and 19 years